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RE: Consultation on 'Regulation of transmission connecting non-GB generation to the GB electricity transmission system'

NOW Ireland, the National Offshore Wind Association of Ireland, is the representative body for enterprises developing offshore wind energy projects in Irish coastal waters. These companies are ready to make an investment in excess of €10 billion to develop over 5000 MW of offshore wind energy capacity in Irish waters.

Our key response to the consultation is that the investment proposition for the export of power from IE to GB, including commercial terms, needs to be put fully in place during 2014

The following are our specific responses:

Question 1: What are the key milestones for the delivery of non-GB generation and connections pre-2020? How does the decision on the regulation and licensing of non-GB connection fit into this timeline?

- **Political agreement by Q1 2014**
- **Clear positive investment signals from governments by Q2 2014 including capacity to be imported from IE and commercial terms**
- **Regulatory certainty and investor board approvals for commitment of capital by Q4 2014**

Question 2: From the perspective of a non-GB project developer, how does the decision on the regulatory arrangements interact with Government decisions on renewable support (such as the award of a Contract for Difference (CfD))?

The IGA will merely facilitate the required regulatory framework. This framework is what will allow or disallow the required investments, including those that must be made in 2014 and so needs to be put in place immediately. The respective regulators need to recognise that the timescales are very challenging and need to assess the real risk that a business-as-usual regulatory approach will hinder progress and ultimately prevent delivery.

Question 3: Are there other factors that Ofgem should be aware of relating to the timing and development of non-GB connections?

The importation of Irish offshore wind energy as phase 1 with Irish onshore wind energy as phase 2 will bring advantages to both UK and IE in the period up to 2020. The main advantage to GB is the avoidance of the risk inherent in the political and planning uncertainty of Irish onshore wind in the near term.

In as far as possible, this regulatory environment must use existing regulatory tools. This is because there is insufficient time to generate a new model of regulation for import of power into GB and also have sufficient time to deliver pre-2020. Furthermore, there must be a phased approach that both allows immediate investment decisions to be made and is targeted at technologies that are ready to proceed. In practical terms, this means that during Q2 2014 GB should identify the technology and location of the assets to be developed and enter into initial agreements with developers in that area. Our position is that this initial pre-2020 phase should comprise Irish offshore projects because these projects:

- 1. can compete with equivalent technologies in GB**
- 2. will be politically enabling in Ireland**
- 3. are consented or are awaiting consent having completed the application process**

In summary, the time is simply not available pre-2020 to commence the import process with a beauty competition of potential locations and technologies.

Question 4: Do you agree these are appropriate principles to take into account in relation to non-GB connections?

Yes. Principles are essential baselines but can easily be applied in ways that will prevent deliverability. It is more useful to initially assess what is required to deliver and to then assess if these requirements are compatible with the principles.

Question 5: Are there other principles that we should also we consider?

Deliverability is a key principle and it will be inefficient to design the system based on the principles outlined if the investment environment, and commercial terms in particular, is not sufficient to attract investment. The other related principle is that a business-as-usual regulatory approach will not work, given the very tight timescales

involved. The main risk for the respective governments and their regulators is reputational. If the intention to have imports of renewables from IE to UK is announced, the required investment capital will not then materialise unless the proposition is made commercially attractive. This means that the ability to achieve a return on investment is clear and that the risks are low. Potential risks that the governments can control include the timescale and the commercial terms. In practical terms, an Irish offshore wind project would need to have a secure CfD before making down payments on subsea cable. Given that the delivery timescale for cable is 4 years and construction should commence in 2018 at the latest, the CfD agreement should therefore be signed in 2014 at the latest. Clearly, there is little scope for a business as usual approach.

Question 6: We invite views on our interpretation of the different asset definitions/boundaries and interpretation of the legislation provided in this chapter. What implications does this have for the regulatory options presented in the next chapter?

We are not concerned with the chosen network model as much as with the investment certainty that the design of the model and its integration in the overall commercial proposition. Nevertheless, the network model needs to be decided upon without delay as it is this component which is least developed. In essence, the choice is between special purpose connections (e.g. 1 GW wind farm with 1 GW exclusive connection to UK without connection to Ireland) or what could be described as networked connections that could serve more than one generation project (including Irish offshore projects on the west coast), would use the local transmission system and could connect the IE and UK grids with network benefits. The possibility of the use of existing interconnection should also be considered in this networked alternative. There are benefits and drawbacks of both approaches and the question is one both of high-level network design and of deliverability in the time allowed. In either case, action sufficient to enable investment decisions is required in 2014 but we see these as high-level strategic decisions for the respective governments.

Question 7: We are interested in views from stakeholders on what impact alternative interpretations would have on potential projects? Please provide detail where possible.

Any network model that provides investment certainty will suffice. The high level design of such models is a matter for regulators and needs to be addressed immediately.

Question 8: We seek input from stakeholders on how generation licensing for non-GB generation could ensure appropriate safeguards for the export of renewables to the GB transmission system?

We would support a system based on Guarantees of Origin as provided for in the EU Renewable Energy Directive.

Question 9: Are non-GB connections deliverable by 2020 via direct and exclusive connections?

This depends on the existence of an appropriate investment environment and on the timescale for implementing it. In this regard, we would re-emphasise that the speed of implementation of the investment environment is key.

Question 10: What are the technology challenges of delivering direct and exclusive connections? What are the technology challenges of delivering multi-purpose assets?

Our firm view is that the technology challenges of linking UK and IE electrically are not “show stoppers” and can be overcome if the regulators provide a commercially plausible investment environment (such linkages already exist). The solving of such challenges will require sufficient available time and investment. This means that the necessary investment environment needs to exist before the process of technical problem solving can begin.

Question 11: What are the potential benefits and challenges of enabling flexibility for a non-GB connection to also be used for a) market-to-market trading; and b) GB network reinforcement? What are the implications for investment certainty?

There are obvious benefits to the maximum efficient use of any transmission asset. However, irrespective of any multi-use aspect of the network, there can be no implications for project investment certainty if deliverability is required – this is a question for regulators to solve. Deliverability is a key principle and it will be inefficient to design the system based on the principles outlined if the investment environment, and commercial terms in particular, are not sufficient to attract investment. In essence, the principle is that the investment environment needs to exist before the investment.

Question 12: Is the interconnector licence with exemptions(s), as currently available, a feasible option for non-GB connections? If not, what are the key challenges of applying this route to non-GB connections? How could these challenges be addressed?

We support the use of existing regulatory structures in order to reduce uncertainty and to shorten timescales. We are open to any regulatory solution that improves the investment proposition.

Question 13: Under this route would an exemption (under Article 17 of the Electricity Regulation) be required? If so, which provisions would you seek exemption from? How would your project be affected if exemptions could not be applied for?

We would expect the respective regulators to provide a clear and business-friendly route to market in this regard. We cannot at this stage advise on the specific legal approach we would take when the regulatory framework as a whole does not yet exist.

Question 14: Given that an application of the regulated Cap and Floor or fixed revenue model would take time to implement for non-GB connections, should these still be explored further?

It is the task of the respective governments to put in place a commercial proposition that will attract the scale of investment required. The

respective governments and regulators need to be aware that there is a limited pot of suitable entities that have the skills and capital to bring to bear on a proposition such as this. Global corporations in this field are naturally risk averse and the majority, in our experience, have no presence in or experience of the Irish market and regulatory environment. The difficulties of attracting the required investment, given the clear regulatory and commercial uncertainties should not be underestimated. As a first step by Q2 2014, the governments should identify the capacity required and the technology that has been chosen to fulfil that capacity. This will give shape to the concept and will allow the relevant players to market the investment opportunity.

Question 15: If so, what are the main challenges and benefits of applying a regulated Cap and Floor or fixed revenue model to non-GB connections? How could these be addressed?

Any revenue model that clears a high investment certainty hurdle will suffice. The detailed design of such models is a matter for regulators.

Question 16: What is the appropriate mechanism for ensuring access to capacity for non-GB generation?

We will operate in any regulatory system where the rules are clear and transparent and where these rules guarantee such fundamentals of a business case as ensuring access to capacity.

Question 17: What are the implications of following the current connections process for non-GB connections? Should non-GB generators be treated differently to GB based generation? Should non-GB generators be treated differently to other interconnector users? If so, please provide your reasoning.

We see this as a legal issue involving EU law in particular. We suggest that it is best answered by the legal advisors to the respective regulators.

Question 18: How would the role of the interconnector operator need to adapt if a direct-connect asset was used for additional purposes such as a) market-to-market interconnection; or b) GB network reinforcement? Should the GB or non-GB NETSO have a role in operating these assets? If yes, what role?

We would envisage that regulators would have a role in the efficient use of such transmission assets but that this role must not dilute investment certainty.

Question 19: Can the existing charging/cost allocation approaches used onshore or for interconnection be applied to non-GB connections? If not why not and what alternatives are available?

We have not yet committed the resources needed to fully answer this question but will do so when there is more certainty around the commercial proposition.

Question 20: How can capacity allocation for direct and exclusive connections ensure consistency with European legislation and European Network Codes? How could this be achieved with the introduction of market-to-market connections?

We have not yet undertaken the required legal work necessary to respond.

Question 21: Are there other challenges we should be considering when looking at non-GB connections?

The challenging timescale is one that is not sufficiently well highlighted in the consultation document. The respective governments will need to implement a step change in the speed of implementation of a commercially attractive proposition if the delivery required is to occur before 2020.

In addition, the benefits of importing Irish offshore wind as a phase 1 in advance of 2020 should be explored and recognised. This will allow the challenges facing Irish onshore wind to be fully worked out so that implementation can occur as a phase 2 closer to 2020 and thereafter.

We have a significant concern that the orthodox regulatory approach in terms of scoping and consultation will simply not deliver. The regulatory solution to this concern is to provide strong investment signals at the outset rather than at the end of the necessary scoping-design-assessment-consultation-redesign-reconsultation etc process. In effect, the governments need to pick the projects now and allow the necessary regulatory processes to follow. Investment signals now with regulatory details to follow.

Yours Sincerely

NOW Ireland

By email

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